

IFRS - Preparation Course

Accounting Cycle

(INDEX)

Topic
A. Accounting Information System
B. Accounting Cycle

A. Accounting Information System:

INDEX
1. Debits and credits
2. Accounting equation

1. Debits and credits:

- An Account shows the effect of transactions on a given asset, liability, equity, revenue, or expense account.
- Double-entry accounting system (two-sided effect).
- Recording done by debiting at least one account and crediting another.
- DEBITS must equal CREDITS.

Debits and Credits

Account



- An arrangement that shows the effect of transactions on an account.
- Debit = "Left"
- Credit = "Right"

An Account can be illustrated in a T-Account form



Account Name

Debit / Dr.	Credit / Cr.

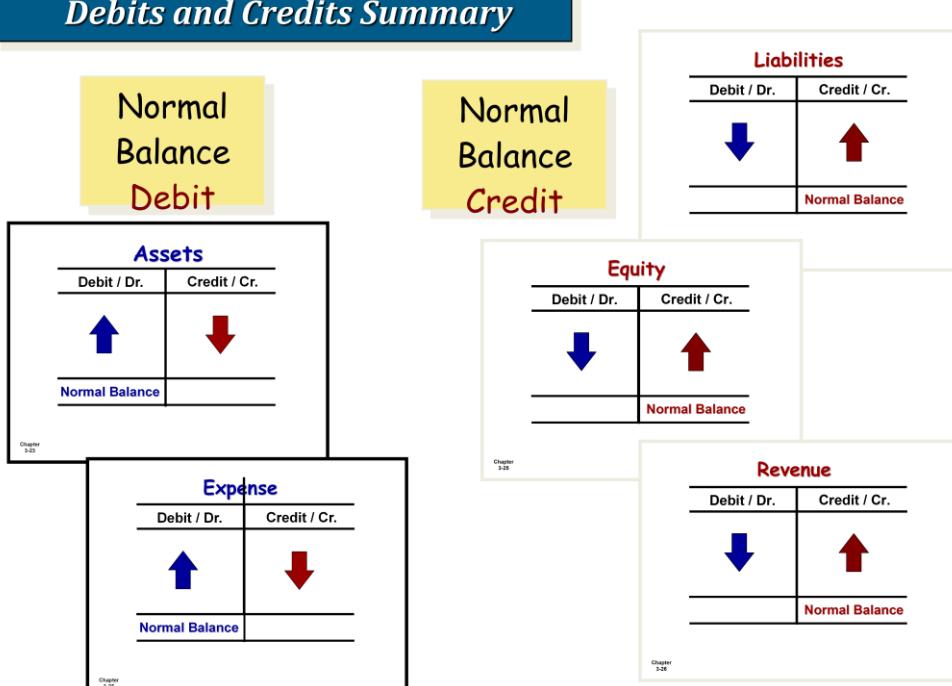
Debits and Credits

If Debit entries are **greater than** Credit entries, the account will have a debit balance.

Account Name	
	Debit / Dr.
Transaction #1	\$10,000
Transaction #3	8,000
Balance	\$15,000

Transaction #2

Debits and Credits Summary



LO 2 Explain double-entry rules.

2. Accounting equation

Double-Entry System Exercise

- Invested \$32,000 cash and equipment valued at \$14,000 on account in the business.

$$\begin{array}{ccc}
 \boxed{\text{Assets}} & = & \boxed{\text{Liabilities}} + \boxed{\text{Stockholders' Equity}}
 \end{array}$$

$$\begin{array}{ccc}
 + 32,000 & & + 32,000 \\
 + 14,000 & & + 14,000
 \end{array}$$

Double-Entry System Exercise

2. Paid office rent of \$600 for the month.

Assets	=	Liabilities	+	Stockholders' Equity
- 600				- 600 (expense)

Examples

Double-Entry System Exercise

3. Received \$3,200 advance on a management consulting engagement.

Assets	=	Liabilities	+	Stockholders' Equity
+ 3,200				+ 3,200

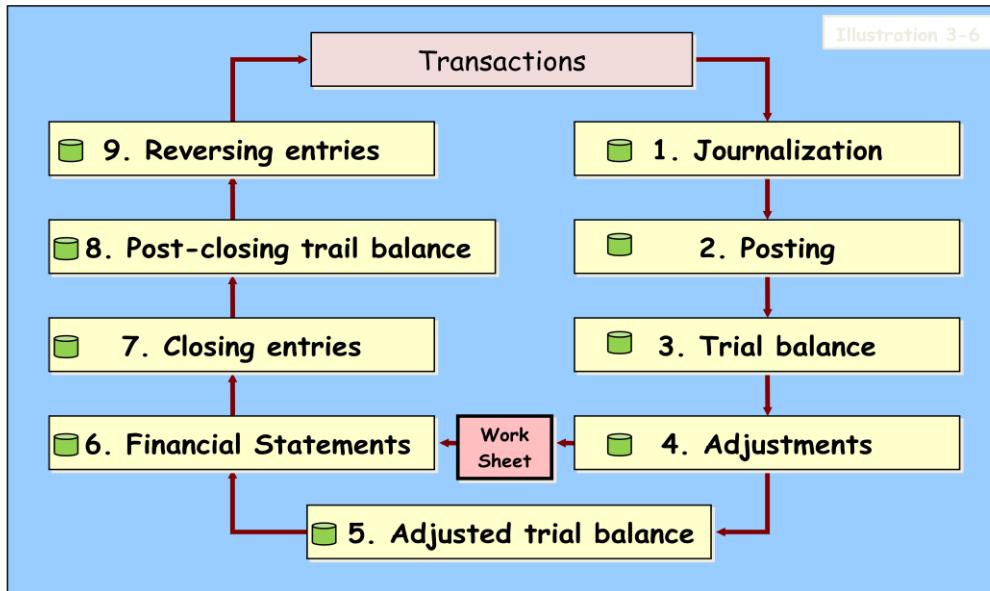
Double-Entry System Exercise

4. Received cash of \$2,300 for services completed for Shuler Co.

Assets	=	Liabilities	+	Stockholders' Equity
+ 2,300				+ 2,300 (revenue)

B. Accounting Cycle:

The Accounting Cycle



1. Journalizing

General Journal - a chronological record of transactions.
Journal Entries are recorded in the journal.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Jan. 3	Cash	100	100,000	
	Common stock	300		100,000
10	Building	130	150,000	
	Note payable	220		150,000

2. Posting

Posting - the process of transferring amounts from the journal to the ledger accounts.

General Journal					GJ1
Date	Account Title	Ref.	Debit	Credit	
Jan.	Cash	100	100,000		
	Common stock			100,000	

General Ledger			Acct. No. 100		
Cash					
Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 3	Sale of stock	GJ1	100,000		100,000

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3. Trial Balance

Trial Balance -
A list of each account and its balance; used to prove equality of debit and credit balances.

PIONEER ADVERTISING AGENCY INC.		
TRIAL BALANCE		
OCTOBER 31, 2010		
	Debit	Credit
Cash	\$ 80,000	
Accounts Receivable	72,000	
Advertising Supplies	25,000	
Prepaid Insurance	6,000	
Office Equipment	50,000	
Notes Payable		\$ 50,000
Accounts Payable		25,000
Unearned Service Revenue		12,000
Common Stock		100,000
Dividends	5,000	
Service Revenue		100,000
Salaries Expense	40,000	
Rent Expense	9,000	
	<u>\$287,000</u>	<u>\$287,000</u>

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4- Adjusting Entries

- Revenues – Recognized and recorded in the period in which they are earned.
- Expenses - recognized and recorded in the period in which they are incurred.
- Adjusting entries - needed to ensure that the revenue recognition and matching principles are followed.

Types of Adjusting Entries

Prepayments	Accruals
1. Prepaid Expenses. Expenses paid in cash and recorded as assets before they are used or consumed.	3. Accrued Revenues. Revenues earned but not yet received in cash or recorded.
2. Unearned Revenues. Revenues received in cash and recorded as liabilities before they are earned.	4. Accrued Expenses. Expenses incurred but not yet paid in cash or recorded.

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Adjusting Entries for “Prepaid Expenses”

Supplies. Pioneer purchased advertising supplies costing \$25,000 on October 5. Prepare the journal entry to record the purchase of the supplies.

Oct. 5	Advertising supplies	25,000
	Cash	25,000

Advertising Supplies		Cash	
Debit	Credit	Debit	Credit
25,000			25,000

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Adjusting Entries for "Prepaid Expenses"

Supplies. An inventory count at the close of business on October 31 reveals that \$10,000 of the advertising supplies are still on hand. (An adjusting entry is required)

Oct. 31 Advertising supplies expense 15,000	
Advertising supplies	15,000
Advertising Supplies	
Debit Credit	

Advertising Supplies	
Debit	Credit
25,000	15,000
10,000	

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Adjusting Entries for "Prepaid Expenses"

Statement Presentation:
Advertising supplies identifies that portion of the asset's cost that will provide future economic benefit.

PIONEER ADVERTISING AGENCY INC.																										
Balance Sheet																										
October 31, 2010																										
<u>Assets</u>																										
<table> <tr> <td>Cash</td> <td></td> <td>\$80,000</td> </tr> <tr> <td>Accounts receivable</td> <td>\$74,000</td> <td></td> </tr> <tr> <td>Less: Allowance</td> <td>1,600</td> <td>72,400</td> </tr> <tr> <td>Advertising supplies</td> <td></td> <td>10,000</td> </tr> <tr> <td>Prepaid insurance</td> <td></td> <td>5,500</td> </tr> <tr> <td>Office equipment</td> <td>\$50,000</td> <td></td> </tr> <tr> <td>Less: Accumulated depreciation</td> <td>400</td> <td>49,600</td> </tr> <tr> <td>Total assets</td> <td></td> <td><u>\$217,500</u></td> </tr> </table>			Cash		\$80,000	Accounts receivable	\$74,000		Less: Allowance	1,600	72,400	Advertising supplies		10,000	Prepaid insurance		5,500	Office equipment	\$50,000		Less: Accumulated depreciation	400	49,600	Total assets		<u>\$217,500</u>
Cash		\$80,000																								
Accounts receivable	\$74,000																									
Less: Allowance	1,600	72,400																								
Advertising supplies		10,000																								
Prepaid insurance		5,500																								
Office equipment	\$50,000																									
Less: Accumulated depreciation	400	49,600																								
Total assets		<u>\$217,500</u>																								

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Adjusting Entries for "Prepaid Expenses"

Statement Presentation:

Advertising expense identifies that portion of the asset's cost that expired in October.

PIONEER ADVERTISING AGENCY INC.		
Income Statement		
For the Month Ended October 31, 2010		
Revenues		
Service Revenue		\$106,000
Expenses		
Salaries expense	\$46,000	
Advertising supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		73,000
Net income		\$ 33,000

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Adjusting Entries for "Prepaid Expenses"

Insurance. On Oct. 4th, Pioneer paid \$6,000 for a one-year fire insurance policy, beginning October 1. Show the entry to record the purchase of the insurance.

Oct. 4	Prepaid insurance	6,000
	Cash	6,000

Prepaid Insurance		Cash	
Debit	Credit	Debit	Credit
6,000			6,000

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Adjusting Entries for "Prepaid Expenses"

Insurance. An analysis of the policy reveals that \$500 ($\$6,000 / 12$) of insurance expires each month. Thus, Pioneer makes the following adjusting entry.

Oct. 31	Insurance expense	500
	Prepaid insurance	500

Prepaid Insurance		Insurance Expense	
Debit	Credit	Debit	Credit
6,000	500	500	
5,500			

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Adjusting Entries for "Prepaid Expenses"

Depreciation. Pioneer Advertising estimates depreciation on its office equipment to be \$400 per month. Accordingly, Pioneer recognizes depreciation for October by the following adjusting entry.

Oct. 31	Depreciation expense	400
	Accumulated depreciation	400

Depreciation Expense		Accumulated Depreciation	
Debit	Credit	Debit	Credit
400			400

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Adjusting Entries - "Unearned Revenues"

Example: On Nov. 1st, Phoenix Corp. received \$24,000 from Arcadia High School for 3 months rent in advance. Show the journal entry to record the receipt on Nov. 1st.

Nov. 1	Cash	24,000
	Unearned rent revenue	24,000

Cash		Unearned Rent Revenue	
Debit	Credit	Debit	Credit
24,000			24,000

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Adjusting Entries for "Unearned Revenues"

Unearned Revenue. Pioneer Advertising received \$12,000 on October 2 from KC for advertising services expected to be completed by December 31. Show the journal entry to record the receipt on Oct. 2nd.

Oct. 2	Cash	12,000
	Unearned advertising revenue	12,000

Cash		Unearned Service Revenue	
Debit	Credit	Debit	Credit
12,000			12,000

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Adjusting Entries for "Unearned Revenues"

Unearned Revenues. Analysis reveals that Pioneer earned \$4,000 of the advertising services in October. Thus, Pioneer makes the following adjusting entry.

Oct. 31 Unearned service revenue 4,000
 Service revenue 4,000

Service Revenue		Unearned Service Revenue	
Debit	Credit	Debit	Credit
	100,000 4,000	4,000	12,000
			8,000

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Adjusting Entries for "Unearned Revenues"

PIONEER ADVERTISING AGENCY INC.

Balance Sheet

October 31, 2010

Assets

Cash	\$80,000
Accounts receivable	\$74,000
Less: Allowance	<u>1,600</u>
Advertising supplies	72,400
Prepaid insurance	10,000
Office equipment	5,500
Less: Accumulated depreciation	<u>400</u>
Total assets	<u><u>\$217,500</u></u>

Liabilities and Stockholders' Equity

Liabilities	
Notes payable	\$ 50,000
Accounts payable	25,000
→ Unearned service revenue	8,000
Salaries payable	6,000
Interest payable	<u>500</u>
Total liabilities	89,500
Stockholders' equity	
Common stock	100,000
Retained earnings	<u>28,000</u>
Total liabilities and stockholders' equity	<u><u>\$217,500</u></u>

Statement Presentation

Unearned service revenue identifies that portion of the liability that has not been earned.

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Adjusting Entries for “Accrued Revenues”

Accrued Revenues. In October Pioneer earned \$2,000 for advertising services that it did not bill to clients before October 31. Thus, Pioneer makes the following adjusting entry.

<u>Oct. 31</u>	Accounts receivable	2,000
	Service revenue	2,000

Accounts Receivable		Service Revenue	
Debit	Credit	Debit	Credit
72,000			100,000
2,000			4,000
			2,000
74,000			106,000

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Adjusting Entries for “Accrued Revenues”

PIONEER ADVERTISING AGENCY INC.		
Balance Sheet		
October 31, 2010		
<u>Assets</u>		
Cash		\$80,000
Accounts receivable	\$74,000	
Less: Allowance	<u>1,600</u>	72,400
Advertising supplies		10,000
Prepaid insurance		5,500
Office equipment	\$50,000	
Less: Accumulated depreciation	<u>400</u>	49,600
Total assets		<u><u>\$217,500</u></u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Notes payable		\$ 50,000
Accounts payable		25,000
Unearned service revenue		8,000
Salaries payable		6,000
Interest payable		<u>500</u>
Total liabilities		89,500
Stockholders' equity		
Common stock		100,000
Retained earnings		<u>28,000</u>
Total liabilities and stockholders' equity		<u><u>\$217,500</u></u>

PIONEER ADVERTISING AGENCY INC.	
Income Statement	
For the Month Ended October 31, 2010	
Revenues	
→ Service Revenue	\$106,000
Expenses	
Salaries expense	\$46,000
Advertising supplies expense	15,000
Rent expense	9,000
Insurance expense	500
Interest expense	500
Depreciation expense	400
▶ Bad debt expense	1,600
Total expenses	<u>73,000</u>
— Net income	<u><u>\$ 33,000</u></u>

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Statements Presentation

Adjusting Entries – “Accrued Revenues”

Example: On July 1st, Phoenix Corp. invested \$300,000 in securities that return 5% interest per year. Show the journal entry to record the investment on July 1st.

July 1	Investments	300,000
	Cash	300,000

Investments		Cash	
Debit	Credit	Debit	Credit
300,000			300,000

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Adjusting Entries – “Accrued Revenues”

Example: On July 1st, Phoenix Corp. invested \$300,000 in securities that return 5% interest per year. Show the adjusting journal entry required on July 31st.

July 31	Interest receivable	1,250
	Interest revenue	1,250

Interest Receivable		Interest Revenue	
Debit	Credit	Debit	Credit
1,250			1,250

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Adjusting Entries for “Accrued Expenses”

Accrued Interest. Pioneer signed a three-month, 12%, note payable in the amount of \$50,000 on October 1. Prepare the adjusting entry on Oct. 31 to record the accrual of interest.

Oct. 31 **Interest expense** 500

Interest payable 500

Interest Expense		Interest Payable	
Debit	Credit	Debit	Credit
500			500

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5. Adjusted Trial Balance

Shows the balance of all accounts, after adjusting entries, at the end of the accounting period.

ADJUSTED TRIAL BALANCE
OCTOBER 31, 2010

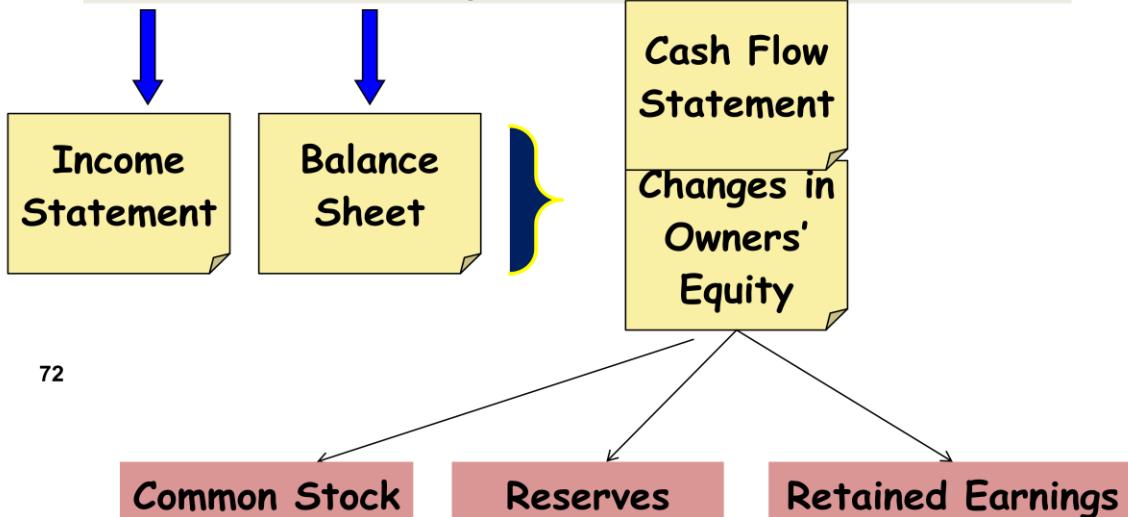
Illustration 3-33

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		\$ 1,600
Advertising Supplies	10,000	
Prepaid Insurance	5,500	
Office Equipment	50,000	
Accumulated Depreciation—		
Office Equipment		400
Notes Payable		50,000
Accounts Payable		25,000
Interest Payable		500
Unearned Service Revenue		8,000
Salaries Payable		6,000
Common Stock		100,000
Dividends	5,000	
Service Revenue		106,000
Salaries Expense	46,000	
Advertising Supplies Expense	15,000	
Rent Expense	9,000	
Insurance Expense	500	
Interest Expense	500	
Depreciation Expense	400	
Bad Debt Expense	1,600	
	\$297,500	\$297,500

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6. Preparing Financial Statements

Financial Statements are prepared directly from the Adjusted Trial Balance.



6. Preparing Financial Statements

Illustration 3-34

PIONEER ADVERTISING AGENCY INC. Adjusted Trial Balance October 31, 2010		
Account	Debit	Credit
Cash	\$80,000	
Accounts Receivable	74,000	
Allowance for Doubtful Accounts		1,600
Advertising Supplies	10,000	
Prepaid Insurance	5,500	
Office Equipment	50,000	
Accumulated Depreciation— Office Equipment	\$ 400	
Notes Payable	50,000	
Accounts Payable	25,000	
Unearned Service Revenue	8,000	
Salaries Payable	6,000	
Interest Payable	500	
Common Stock	100,000	
Retained Earnings		
Dividends	5,000	
Service Revenue		106,000
Salaries Expense	46,000	
Advertising Supplies Expense	15,000	
Rent Expense	9,000	
Insurance Expense	500	
Interest Expense	500	
Depreciation Expense	400	
Bad Debt Expense	1,600	
	<u>\$297,500</u>	<u>\$297,500</u>

PIONEER ADVERTISING AGENCY INC. Income Statement For the Month Ended October 31, 2010		
Revenues		
Service Revenue		\$106,000
Expenses		
Salaries expense	\$46,000	
Advertising supplies expense	15,000	
Rent expense	9,000	
Insurance expense	500	
Interest expense	500	
Depreciation expense	400	
Bad debt expense	1,600	
Total expenses		<u>73,000</u>
Net income		<u>\$ 33,000</u>

PIONEER ADVERTISING AGENCY INC. Retained Earnings Statement For the Month Ended October 31, 2010		
Retained earnings, October 1		—0—
Add: Net income		33,000
		<u>33,000</u>
Less: Dividends		5,000
		<u>5,000</u>
Retained earnings, October 31		<u>\$28,000</u>
To balance sheet		→

6. Preparing Financial Statements

PIONEER ADVERTISING AGENCY INC.			PIONEER ADVERTISING AGENCY INC.		
Adjusted Trial Balance			Balance Sheet		
October 31, 2010			October 31, 2010		
Account	Debit	Credit	Assets		
Cash	\$80,000		Cash		\$80,000
Accounts Receivable	74,000		Accounts receivable	\$74,000	
Allowance for Doubtful Accounts		1,600	Less: Allowance	1,600	72,400
Advertising Supplies	10,000		Advertising supplies		10,000
Prepaid Insurance	5,500		Prepaid insurance		5,500
Office Equipment	50,000		Office equipment	\$50,000	
Accumulated Depreciation— Office Equipment		\$ 400	Less: Accumulated depreciation	400	49,600
Notes Payable		50,000			
Accounts Payable		25,000			
Unearned Service Revenue		8,000			
Salaries Payable		6,000			
Interest Payable		500			
Common Stock		100,000			
Retained Earnings		—0—			
Dividends	5,000				
Service Revenue		106,000			
Salaries Expense	46,000				
Advertising Supplies Expense	15,000				
Rent Expense	9,000				
Insurance Expense	500				
Interest Expense	500				
Depreciation Expense	400				
Bad Debt Expense	1,600				
	\$297,500	\$297,500			
			Assets		
			Cash		\$80,000
			Accounts receivable	\$74,000	
			Less: Allowance	1,600	72,400
			Advertising supplies		10,000
			Prepaid insurance		5,500
			Office equipment	\$50,000	
			Less: Accumulated depreciation	400	49,600
			Total assets		\$217,500
			Liabilities and Stockholders' Equity		
			Liabilities		
			Notes payable	\$ 50,000	
			Accounts payable	25,000	
			Unearned service revenue	8,000	
			Salaries payable	6,000	
			Interest payable	500	
			Total liabilities		89,500
			Stockholders' equity		
			Common stock	100,000	
			Retained earnings		28,000
			Total liabilities and stockholders' equity		\$217,500
			Balance at Oct. 31 from Retained Earnings Statement in Illustration 3-34		

7. Closing Entries

- To reduce the balance of the income statement (revenue and expense) accounts to zero.
- To transfer net income or net loss to owner's equity.
- Balance sheet (asset, liability, and equity) accounts are not closed.
- Dividends are closed directly to the Retained Earnings account.

Example: Assume the following Adjusted Trial Balance

Acct. No	Account	Debit	Credit
100	Cash	\$ 140,000	
105	Accounts receivable	35,000	
130	Building	190,000	
220	Note payable		\$ 150,000
300	Common stock		100,000
330	Retained earnings		38,000
380	Dividends declared	10,000	
400	Sales		185,000
430	Interest income		17,000
500	Cost of goods sold	47,000	
520	Salary expense	25,000	
550	Depreciation expen:	43,000	
78		<u>\$ 490,000</u>	<u>\$ 490,000</u>

The Answer:

7. Closing Entries

Example: Prepare the Closing journal entry from the adjusted trial balance on the previous slide.

Sales	185,000	
Interest income	17,000	
Income summary		202,000
Income summary	115,000	
Cost of goods sold		47,000
Salary expense		25,000
Depreciation expense		43,000
Income summary	87,000	
Retained earnings		87,000
Retained earnings	10,000	
Dividends declared		10,000

8. Post-Closing Trial Balance

Example continued:

Acct. No.	Account	Debit	Credit
100	Cash	\$ 140,000	
105	Accounts receivable	35,000	
130	Building	190,000	
220	Note payable		\$ 150,000
300	Common stock		100,000
330	Retained earnings		115,000
380	Dividends declared		-
400	Sales		-
430	Interest income		-
500	Cost of goods sold		-
520	Salary expense		-
550	Depreciation expense		-

RE- Beg + RE
Movement = (38.000 + 77.000)